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September 2, 2013

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, N. W. Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 034; Proposed Rule Under Release# 2013-005;
Release Date August 13, 2013

I appreciate the opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its proposed new auditing standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. I am choosing not to respond to the other proposed auditing standard contained within the same Release (Release # 2013-005), *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*, in this comment letter, but may submit a separate comment letter focusing on this proposed new standard before the December 2013 deadline.

My comments on the Concept Release today address the following areas:

- I. Overall Comments*
- II. Recommendations for Changes to the Auditor's Report*
- III. The Most Important Needed Change to the Auditor's Report*
- IV. Conclusion Concerning the Current Proposed Standard*

I. Overall Comments

As a CPA dedicated to the profession and committed to our responsibility to the public for over 10 years now, I have struggled with the mindset of many within the profession who do not truly apply the principals behind our accounting and auditing standards, especially transparency, due diligence, and professional skepticism; and their impact on the audit process, including risk assessment and the creation of the audit report. I have seen the work of Deloitte with "except for" unqualified opinions, qualified opinions, and explanatory paragraphs within unqualified opinion reports, and have a very positive perception, as a result of this and my research of this firm, of the

overall leadership of this firm, and its dedication to the profession, including its understood responsibility to the public. Unfortunately, I cannot assert the same perception for another Big 4 firm, and other firms, currently registered with the PCAOB and conducting audits of SEC registrants, and it would also be impractical to assume **all** Deloitte partners have never, and will never, fall prey to our human nature to apply a biased perception and allow the current conflict of interest that exist between an audit firm and its audit client to affect their objectivity in any and all circumstances, especially when personal and/or business financial interest are at stake, that is, loss of the client to bankruptcy for instances, or another firm. It is because of these other firms that I am most excited to see the PCAOB work toward improving the value of the audit report, by requiring specific findings be included to assist public investors, and I truly hope the AICPA follows suit in promoting the adoption of a similar standard for audit firms of non-publicly held entities, and move away from the existing standardized audit reports to the benefit of the public, financial institutions, and venture capitalist, which our profession has a responsibility to protect in providing a quality audit and opinion on relied upon financial statements.

Although not directly related to the above referenced proposed standard, I would be remiss, if I did not also state that I hope the next steps of the PCAOB and the SEC, in its efforts to fully implement the provisions of the Sarbanes Oxley Act as Congress expressly meant for the Act to be applied, is to remove the current conflict of interest between the audit firm and the client SEC registrant, which is a true independence issue, and the main problem leading to the lack of transparency, lack of due diligence and prudence, and lack of professional skepticism, and other issues, resulting in low quality audits and an audit report of little value. Although audit firm rotation, and full engagement team rotation, may address some of these issues to some degree, until the conflict of interest is removed of the SEC registrants paying an audit firm directly to perform the audit and render an opinion on the SEC registrant's financial statements, the risk is still too high such conflict of interest will impact the engagement team and partner's perspective, resulting in lack of transparency, lack of due diligence, lack of professional skepticism, etc. and lead to public harm, possibly the equivalent of the Enron scandal or greater as some point in the future, given the number of registered firms with the PCAOB and my known personal experience with more than one of these firms, one of which is a Big 4 firm.

Although I have grown in my professional writing since I wrote the attached paper addressing this conflict of interest (i.e. it is raw and lacks diplomacy as it was written with emotion, demonstrating my frustration with certain ones within my profession, and with the government's, and governing bodies', past and present failures to promptly and directly address the conflict of interest and other objectivity issues), the attached paper is a truly honest assessment of the problems that existed, and still exist, within our profession from someone with first-hand knowledge of what goes on behind the scenes, for which the PCAOB inspectors most likely will not become aware of in their "after the fact" review of engagement work papers. The attached is not a full report, but only highlights certain problems.

Although prepared in 2007, I submitted the attached to the SEC in the early part of 2009 as an attachment to my comments on the IFRS timetable. In considering this attachment, I do commend the PCAOB for the subsequent recent steps to make the

Sarbanes Oxley Act more effective to the benefit of the public, including recent public meetings addressing audit firm rotation, engagement team rotation, and the conflict of interest of SEC registrants paying the audit firms directly for the audit and audit opinion of their annual financial statements, when independence is required and needed for the audit report to have any value. And even though most within my profession have not, and will not, agree with my recommendations in whole or in part, because it makes their business life more difficult, and could possibly negatively affect their income levels, and even though my personal and professional life has been negatively impacted for not accepting the status quo of how audit firms have in the past, and currently, audit and report, and for being outspoken about the deficiencies with the status quo of our audit profession, I believe the protection of public interest is more important and worth the difficulties that come with needed change to mitigate known risk. With the above stated, the purpose of the attachment and its mention herein, is to remind the Board of why the PCAOB originated, and to encourage the Board to stay strong in carrying out its original objectives to the benefit of the public at large versus folding to any degree to the voices of the influential and/or majority firms and SEC registrants who want to minimize change from the status quo, which includes encouraging the Board to stay strong in adopting an audit report standard that will be of true significant benefit to the investing public, that will force SEC registrants to be that much more on top of their internal controls and financial reporting than existing rules promote, and force audit firms to be that much more mindful of the need to apply appropriate risk assessment, professional skepticism, and to produce the type report that should be issued under the circumstances.

II. Recommendation for Changes to the Auditor's Report

I concur with the PCAOB's proposal of requiring auditors to communicate critical audit matters which could help investors and other financial statement users focus on aspects of the company's financial statements, which they would not know to consider otherwise in reviewing the financial statements, especially if the required disclosure, by its content, promotes a true low audit risk that a material misstatement exist and has gone undetected during the course of a quality audit in line with our professional standards. In other words, I believe the value in adding certain disclosure requirement within the audit report is possibly not only in how the information will assist public investors in their investment decisions, but possibly also in how the required disclosures would force the engagement team and partner to reevaluate the sufficiency of their evidence obtained, how they addressed findings, and whether or not their audit risk is truly low that a material misstatement exist and has gone undetected in the course of the audit, and the effect of such reevaluation on their decision of the type audit report that needs to be produced (i.e. unqualified, qualified, adverse, or disclaimer) and the content within such report (i.e. explanatory paragraphs).

In looking at the cost/benefit of adopting a standard that requires additional useful information to the investing public, the benefit of protecting the investing public far outweighs any additional cost, which should be ultimately absorbed by the SEC

registrant. In other words, expected costs to audit firms and SEC registrants should not deter the PCAOB from making changes that benefit the investing public in multiple ways, including changes that promote better performance of audit firms in carrying out the audit and better performance of SEC registrants in financial reporting. Under the current payment model, the audit firm would bill the SEC registrant directly for such additional time and money involved in preparing the audit report under any new reporting model that would come with the adoption of a new standard for such by the PCAOB. However, once the existing payment model is changed to remove the existing conflict of interest between the independent audit firm and the SEC registrant, the audit firm will bill the same additional costs to the PCAOB instead, who then bills and collects from the SEC registrant. This is how I perceive the existing payment model changing, but this concept is for a separate day under a separate concept release by the Board.

In reviewing the bullet points of additional information the Board has proposed in its earlier Concept Release, I believe the following, if not apparent on the face or notes of the financial statements, have the most merit, and would benefit the investing public the most with its disclosure in the audit report.

- Areas of high financial statement and audit risk;
- Areas of significant auditor judgment;
- The most significant matters in the financial statements, such as significant management judgments, estimates, and areas with significant measurement uncertainty;
- Significant changes in or events affecting the financial statements, including unusual transactions

If any of the above areas are covered in the footnotes to the financial statements, then I believe it would benefit the investing public to require the auditor point to the footnote instead of being redundant, which has the same affect in bringing the high risk areas to the investor's attention.

III. The Most Important Needed Change to the Auditor's Report

I believe a required disclosure of the significant audit differences, for which were either not resolved or not accepted by the SEC registrant as a proposed audit adjustment must be added to the proposed standard, ***The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion***, for such a standard to be highly effective in improving the value of the auditor's report to public investors, and ultimately improving the overall quality of audits produced by audit firms registered with the PCAOB. However, I further believe this change should be a required change for **Qualified Opinion Reports** as well. I actually believe the Board should consider adopting a standard that addresses **changing the reporting on both Unqualified and Qualified Opinion Reports versus only Unqualified Opinion Reports** for disclosure of unresolved or uncorrected significant audit differences as well as adopting some framework of reporting

which addresses the bullet point items in section II above to some degree.

Review of the significant audit differences and their effect on risk assessment and the final report issued is a critical part of the audit process, and could therefore be considered a component of the “critical audit matter” part of the new standard the Board adopts. I do not believe certain matters should be left up to the auditor to decide as to whether or not it should be disclosed in the auditor’s report, or whether or not it qualifies as a critical matter. Significant audit differences is one of those matters the Board should mandate disclosure of in its upcoming new standard. My perception on its importance is due to what I have seen while working under the direction of others responsible for audit quality and opinion reports produced. I have seen significant audit differences go unaddressed or not sufficiently addressed when considering audit risk. One example includes identified premature revenue recognition the client did not want to correct, which was technically just below the SEC materiality thresholds for revenue, when considering quarterly segment revenue disclosure and trend analysis, but for which brought into question audit risk, and if I were a potential investor in this company, I would have wanted to know about this significant audit difference the SEC registrant refused to correct. Again, such a mandated disclosure would force audit firms to ensure they have reduced their audit risk to the required low and produced the right report, and possibly entice the SEC registrant to correct significant audit differences proposed as adjustments to keep their books cleaner.

In the name of transparency, maybe the same required auditor communications to management and the audit committee should be disclosed to the public as an attachment to the audit report. Although I have not read any of the comment letters from the 2011 release and this 2013 release, or yet fully read the Concept release or Proposed Standard release, for that matter, my focus is on potential investors versus existing investors in any particular SEC registrant, and believe the decisions of this Board should give more weight to the impact of its decision on potential investors (i.e. the public at large) versus the effect of the Board’s decision on any SEC registrant and its existing investors and its audit firm. With this stated, my questions is, “Why not require the required written communications to management and the audit committee, per existing and ongoing standards on such communications, be attached to the audit report and disclosed in the SEC form 10-K?”. Although I intend to read through the 2011 Concept release and the 2013 Proposed Standard release in its entirety as well as some of the comment letters for the 2011 Concept release and 2013 Proposed Standard release, and may provide an updated comment letter which excludes this proposal once read, my desire to contribute with available time, it being Labor Day, has me putting this thought, and this comment letter, to the Board now as I cannot predict my availability to contribute an updated comment letter before the December deadline as other matters currently have my priority.

IV. Conclusion Concerning the Current Proposed Standard

Although I again commend the Board for its attempts to improve the audit profession and benefit the public with improvement to the audit profession’s unqualified opinion audit report, I am concerned it is mostly face value, as is, and will not benefit the public as the Board expressly desires. I do believe a standard needs to be developed by the Board to improve

upon the existing reporting requirements to benefit the public and the quality of audits produced by PCAOB registered audit firms. However, the proposed standard is in need of some reconsideration and revision to accomplish the objectives of the Board, and truly add much needed value to the report in the interest of the investing public.

I apologize for just now making my comments directly known to the Board, versus bringing my comments to the Board in 2011, when the Board first brought it's concept of a change in the existing reporting model to the public for comment. However, I welcome an opportunity to participate in upcoming discussions on much needed changes to existing standards and Board rules to aid in rigorously implementing the Sarbanes Oxley Act for the best protection of investing public at large.

If you have any questions or would like to discuss these matters further, please contact me at (214) 772-5458. And I again thank you for this opportunity to comment and thank you for your consideration of these matters.

Very truly yours,

A handwritten signature in black ink, appearing to read "Theresa Barnett", written over a horizontal line.

Theresa Barnett

cc: SEC Chairman
SEC Chief Accountant
Kenny Marchant, US Congressman

What and When Will the Next Steps Be?

If one were to consider the face-value activity that has occurred since the Enron scandal; such as the congressional hearings, resulting legislation, and formation of the PCAOB, one may conclude that enough has been done to reduce the risk to an acceptable low level that a scandal similar to Enron happens again. But has enough really been done? The conflict of interest between the client and audit firm engaged to report on the internal controls and financial statement of the client still exist. We are fooling ourselves if we think enough has been done and is being done currently to prevent another Enron fiasco. The PCAOB has enhanced the independence rules to some degree to help reduce this risk, but it is not enough.

This conflict of interest is at the heart of what happened with Enron; and unfortunately, in today's society it is hard to find leadership in a firm willing to quit an account on principle and/or issue a modified opinion when required per standards for fear of losing the account. This is exactly why additional measures are warranted because we can't rely on the majority of leaders in today's society to do the right thing legally, ethically, and/or morally on their own accord. Is it going to take another scandal the magnitude of Enron to get Congress (or now, the PCAOB) to move on removing the conflict of interest between independent auditors and their clients?

As I read in various Wall Street Journal articles printed prior and just after the Enron scandal, individuals and governing bodies of authority warned the SEC years prior to the Enron scandal that changes were needed. One such article noted that Arthur Levitt, chairman of the SEC in the Clinton administration, had called for reform in the 90's before the accounting scandals broke out; and before these scandals, his suggested reforms seemed unreasonable; but after the Enron scandal, these suggested reforms seemed more than reasonable. A March 5, 1996 Wall Street Journal article titled, "Who is Going to Audit the Auditors?", talked about companies, including Enron, who were taking cost cutting measures by outsourcing their internal audit departments to their own auditors. According to the article, The Institutes of Internal Auditors wanted double duty stopped and warned the SEC that double duty can lead to major problems. Instead of listening to these expressed warnings by these individuals and governing bodies of authority and taking proactive measures to prevent such problems, the SEC apparently did nothing and it took the Enron scandal and a resulting act of Congress to make a move that was reactive in nature. Let's please learn from what is now history and be proactive going forward. By putting the PCAOB in-charge of assigning the audits of these publicly held corporations and paying the auditors versus allowing these publicly held companies to pay the auditors directly, the conflict of interest is removed and true independence is obtained, thus greatly reducing the risk of another scandal such as Enron from occurring. A step such as this is what the public needs to have the right amount of real (not false) assurance to invest in the capital market.

However, removing the existing conflict of interest isn't the only additional step needed to reduce the risk to an acceptable level that the fraudulent activity the size of Enron occurs again. Objectivity is a major component of independence. You can't be considered independent if you lack objectivity. There is a natural tendency for the professional skepticism that needs to be applied each year to ensure the

investors receive the quality audits they deserve to dissolve over a period of years in serving the same clients as complacency sets in with these recurring clients and objectivity becomes lacking. I observed this exact lack of objectivity and thus lack of professional skepticism of engagement team management at both the Big 4 and regional accounting firm level where the client was a recurring client for numerous years. Section 203 Audit Partner Rotation of the SOX Act required amendment to Section 10A of the Securities Exchange Act of 1934 by adding the following: (j) Audit Partner Rotation – it shall be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner (having primary responsibility for that audit) or the audit partner responsible for reviewing the audit has performed audit services for that issuer in each of the previous 5 fiscal years of that issuer. However, this amendment doesn't address the other members of the engagement team who have served the same client for 5 years or longer, but it should.

Third year seniors, managers and senior managers with Big 4 firms, especially those who start their audit career with the same Big 4 firm, more than likely have served the same clients since the beginning of their time with the Big 4 firm, thus they already have at least 5 years in these clients before they reach the partner level. Seniors, managers and senior managers handle the majority of the planning and supervise the fieldwork testing, in addition to performing their own testing on the more complex areas. These individuals work directly with client management as well as client accounting personnel and make the day-to-day decisions in fieldwork testing; and as such, must apply the right amount of professional skepticism to ensure a quality audit in-line with auditing standards, which the investing public deserves. It's not just the audit partner needing this professional skepticism, thus the mandatory 5 year rotation should apply to the entire engagement team and not just the audit partners.

Section 207 of the SOX Act required a study of mandatory rotation of registered public accounting firms by the Comptroller General of the United States to be completed and reported to Congress and the Senate before the end of 2003. The Comptroller General responsible for this study and resulting report was and still is David M. Walker. David became the seventh Comptroller General of the United States and began his 15-year term when he took his oath of office on November 9, 1998. However, between 1989 and 1998, Mr. Walker worked at Arthur Andersen LLP, where he was a partner and global managing director of the human capital services practice based in Atlanta, Georgia. So how does this former Anderson partner go about studying the potential effect of a mandatory audit firm rotation to help the House and Senate decide on the whether or not to make audit firm rotation mandatory? He polls the accounting firms and SEC registrant executives (i.e. CFOs and audit committees), the very same type professionals who caused the Enron downfall (& other scandals of the early decade) in the first place. How objective can their responses be? Per the GMO reported results, the majority of accounting firms and SEC registrants do not want mandatory rotation. Who would have thought such an outcome in this survey would result? Anyone who is a business person and understands the mindset of these industry executives and public accounting leaders would not be surprised by these results. Thus, one could say that a conflict of interest existed in asking these professionals for their opinion on the subject of mandatory firm rotation. Although no-one will come right out and say it, one of the main reasons the majority polled do not want this mandatory rotation is because it makes business and life

more difficult for them and could hurt their own bottom line. They just do not want to make the sacrifices necessary to protect the investing public.

Two somewhat laughable responses reflected in the GMO reported survey results is the expressed concern that increased cost would result due to increased dominance by a few and the expressed concern that the first year with a new auditor would result in a lower quality audit, which could lead to missed material misstatements. First, the Big 4 already dominate the market of SEC registrants. A mandatory audit firm rotation should open up this market to fairer competition and reduce the dominance that currently exists, and thus benefit the SEC registrant in the long run. Having spent some time with smaller accounting firms which heavily compete for clients, I have first-hand knowledge that it appears to be common practice to expect additional fees from the client in the initial year of engagement to cover the warranted additional testing and considerations in the first year and the long term contracts (engagement letters) reflect this with lower estimated fees in the 2nd and subsequent years. Sure the first year with a new auditor might be a little more costly, but the long-term contracts should keep audit fees down with increased competition. Secondly, auditing standards for which all independent auditors in the United States are required to abide by dictate that auditors must have the knowledge of the industry and specific accounting issues or be able to obtain that knowledge during the course of the audit to competently complete the audit. Additionally, audit standards concerning risk (SAS 47 and now SAS 107) requires the auditor to reduce to an acceptable low level the risk that material misstatements will go undetected in the course of their audit, thus the higher risk that comes with a new client is reduced with the additional time and testing required with an initial audit. With this in mind, a quality audit is as obtainable with the new successor auditor as it is with the predecessor auditor, who may lack the professional skepticism due to its possible lack of objectivity after serving the client for many years. These Big 4 firms have been serving the same audit clients for up to as many as 50+ years. As such, the PCAOB should consider a mandatory firm rotation from anywhere between 5 and 10 years after the initial audit for the protection of the investing public.

Approximately four years has past since the Comptroller General's release of its report on its study of mandatory audit firm rotation in which it stated that more time was needed to determine the effectiveness of existing implementation of the Sox Act to consider such a step in greater detail. How much more time is needed before the next steps are taking? In a March 4, 2003 Review of FASB Action Post Enron and WorldCom Hearings by the House of Reps. – It was stated, "Sarbanes Oxley represents a positive 1st step, but it will not make a real impact unless it is vigorously implemented." I believe it is time for the next steps in this continuous process to reduce the risk that another scandal the size of Enron happens again. Don't you?